

Indian Economy: Some Contemporary Perspectives
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Lecture 13
Indian Economy: Industrial Policy 1

Hi everyone. So, we are now going to start a lecture 13 in this particular course which is Indian Economy: Some Contemporary Perspective. Now, we have already discussed during different plans that how our industrial sector has performed and what were the reasons for revival of that particular sector? After independence what all difficulties we had to face and we have prioritized our industrial growth as one of the backbones of India's economy.

But there are certain developments that I did not cover at that time because it was mostly focused on India's planning process. So, now I will be dealing this particular session and after this lecture 13 and lecture 14 we will be focused mostly on industrial policies. So, it will also incorporate a new development that we have seen. So, with the revival of private sector in India's economy there are certain changes that we have observed.

And we had to also coordinate or orient our policies for the acceptance of the private sector. We have also learnt from our neighbors especially from China, how China has given importance to the small-scale industries and how different Industrial clusters helped China to come out as one of the strongest economies in the world. So, we have also gone for a similar kind of development in India and we have made quite tremendous progress.

And so far, it has been really good in terms of achieving good growth and development. So, this particular lecture we will be mostly focusing on manufacturing different indicators of manufacturing, we will be tracing the development process from 1950s then mostly focused on post 2000 developments. We will be also looking at certain developments in the area of labor because it is considered that when we started our industrialization process we had very rigid labor system.

And because of that we did not sustain our high growth for a long time because this started acting as one of the major impairments for the markets growth and development and later when we realize this is going to be a big obstacle for the development of the economy then we had to rationalize our labor laws and in recent period especially in the last year 2020 we

had to take certain drastic measures to make sure that our policies are in line with the market oriented economy that we are looking forward in our India's economy.

So, new liberal policies that we have adopted under that it is obvious that the labor laws will be more flexible and it will move towards the employer compared to employees. So, those aspects we will be also dealing with and towards the end we will be focusing on special economic zones and export promotion zones that how these two developments have led to the drastic change in the manufacturing landscape of the country across India.

Not only manufacturing, but services also there is a special role of a special economic zones and each and everywhere we are experiencing some changes. So, we will be discussing that also.

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So, to start I will be giving you the reference books and reading material that one should refer. So, I found this Banga and Das report on 20 years of India's liberalization experiences and lessons. I found this document really useful. So, I would request everyone to please go through it. Then I have already mentioned the Ashima Goyal edited book on handbook of the Indian economy under 21st century understanding the inherent dynamics.

It is published by Oxford University Press then I found Chaurey R article really quite intuitive and it is an empirical work on India's economy and it is really good especially on labor regulations. So, it appeared in general development economies the title is labor

regulation and contract labor use evidence from Indian firms. Then I found Besley and Burgess paper can labor regulation hinder economic performance, evidence from India.

It also has appeared in (04:54) and then we had a Jain. H manufacturing growth and employment pattern in India since 1990s the Indian Journal of Industrial Relations and then I found Virmani and Hashim paper really good on the productivity of India's industrial growth and this talk about J curve of productivity and growth Indian manufacturing post liberalization phase.

So, how second developments were not conducive for immediate big push to the industrial growth, but we started realizing those high growth phases after 1990s. So, in 2000 we had some kind of moment which Virmani and Harshim approved as a J-curve.

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So, the key learning objective should be that we will be focusing on understanding the landscape of industrial development in India in the context of recent developments post 2000 mostly and then we will be also seeing looking at some indicators we will be analyzing the industrial sector at a very micro level and we will be also focusing on certain aspects that we have not covered so far.

So, to have an overview of recent developments and how recent measures have helped revived the economy especially the industrial sector growth.

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India's Industrial Development: Analysis and Perspectives

- India's industrial development
 - India started its industrialization process with heavy regulations through licensing. The key sectors were under the control of the government.
 - The **Industrial Policy Resolution (1956)** classified industries into three categories with more share to the public sector and private sector had a supplementary role.
 - The **Industrial Policy Resolution (1970)** classified the industries into four categories: core sector, heavy sector, and the middle sector and the de-licensed sector with a major say to large industrial houses and foreign companies.
 - **Industrial Policy Resolution (1973)** gave importance to the growth of SMEs (Small and Medium Enterprises).

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So, without giving you some introduction about the past it will not be good to go directly to the recent developments. So, I will just go through what we have already discussed in detail when we were discussing planning. So, maybe lecture 1 and lecture 2 may be connected with this and some of you may find that those two lectures quite useful. So, in this particular slide I am going to focus on certain industrial policies that we took.

And how we have gone from the highly regulated to a market economy. So, the first we discussed was the industrial policy resolution 1956. It classified the sectors into the schedule A, schedule B and schedule C and under that what we were supposed to do is that we kept 17 as a core that was meant for the Central government which means that Central government was supposed to take lead.

In those it included everything infrastructure core sectors plus we also had atomic and all environmental sensitive sectors plus we left 12 for the states to take which means that the state level developments if the states were interested and if some states have advantage in dormant of resources then they can also take care. And then the rest were given to private sector.

So, in industrial policy resolution 1956 which was envisaged by the P C Mahalanobis and that is why it is called Mahalanobis Model. It came in during second 5-year plan. So, this particular industrial policy resolution 1956 helped a lot in terms of setting the landscape of the industrial revolution in India and it revolutionize, but one thing that gave rise during this

particular period was that the government sector was completely dominant in the sphere of not only resource utilization, but exploration also.

Then we had industrial policy in 1970 when we had Dutt Committee and Dutt Committee had recommended for the MRTP act and MRTP act allowed the role of the government sector, but this policy resolution is also blamed for giving more importance to the large firms. So, certain industry under core sectors were kept for only large firms. So, the cap was about Rs. 5 crore and then for heavy it was 1 to 5.

And then middle somewhere with the help of both public and private if there is a willingness and if it is falling under the delicense then it was allowed and for delicense it was just 1 crore. So, these regulations also helped a lot in terms of giving more weightage to the large firms and MRTP act is known for this. Then we had industrial policy resolution 1973 which gave importance to the SMEs.

So, for the first time we had realized this we have to go for small and medium enterprises and it was also decided that we should be having a segmental role of the industrial policies in terms of not just benefitting the large firm, but also the smaller firms.

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Then we had a Janata party government in 1977 for the first-time non-congress government and this government took measures in terms of not only reviving. So, the focus during this industrial policy was not to just give the focus to the large industries. So, for the first time we

had the classification of tiny unit. So, tiny unit is very small unit up to Rs. 1 lakh if you have so the asset size of Rs. 1 lakh is sufficient to be incorporated under tiny unit.

And there were lot of developmental or institutional framework were prepared for the support of such tiny units and even at the district level certain regulatory measures were taken so that in case of any kind of regulatory hurdles these small or tiny firms or tiny units we will be able to handle it. So, the focus was that the cottage and handloom industries should be given more priorities.

And whatever we have indigenous structure of having our own industrial setup supporting at different level not just in terms of at the very large scale, but at very small scale we have our industrial culture wherein we promote the certain goods and services at the very local level and in a periphery of 20 to 30 kilometers. So, this industrial policy 1977 players are having a lot of role in terms of redefining the industrial structure.

So far, we were focusing only on the capacities, but for the first time we realize our own potential and we started focusing on the development of the industrial structure, the sub industrial structure that we had and not just considering the agriculture or the weighted activities for the raw material, but for the first time we realize that these pageants will always be part of such cottage and handloom industries.

Then industrial policy 1980 gave lot of importance to the modernization of industrial sector and this particular industrial policy 1980 is considered as one of the revamping processes of revitalizing the growth of public sector enterprises. So, there was whole lot of effort made to improve the organizational structure or functioning of the Central public enterprises and how these enterprises will be made accountable for their losses and how they will be made efficient.

So, industrial policy 1980 is considered as one of the major contributors and from here onwards we focus on domestic competition, we had also gone for technological upgradation, there were certain incentives taken. So, here in this particular time we started giving importance to the role of technological collaborations, lot of companies were encouraged to have investment, collaborations.

So, 1980s was the period when we started realizing the phase of real modernization of India that we had, but because of our political development the progress was very slow, but after

1991 debacle we were forced to do under IMF structural adjustment program and because of that we had taken certain drastic measures. So, industrial policy 1991 as we all are aware of that this was the gateway for opening up the economy.

And then we took measures at each and every level and we also analyze the sectors not only in terms of thinking about just the liberalization process happening only in industrial, we opened for each and every sector even agriculture got benefitted, but we realize the benefit only after 5 to 6 years there is a laggard for such measures. We also took measures to revive the services sector.

Certain rules and regulations were reoriented to make sure that services sector does not face any hurdle in terms of exporting or importing of goods and technologies that whatever they require. So, this industrial policy was quite creative and gigantic in terms of not just progressing the India's growth, but also it also helped in terms of reviving the policies for the modern India that we have.

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India's Industrial Development: Analysis and Perspectives

- India's industrial development
 - In the last two-decades, India's industrial reforms have brought following significant changes: (a) productivity, (b) employment, (c) optimal utilization of resources, (d) international competitiveness, (e) making India as one of the global leaders.
- Indian Industry decadal growth trends

Decades	Manufacturing Sector	Organized Sector	Unorganized Sector
1950s	5.6	6.3	5.0
1960s	5.4	7.0	3.9
1970s	4.2	4.1	4.3
1980s	6.0	8.0	3.4
1990s	5.4	5.9	4.4
2000-07	7.4	7.8	6.6

Source: Banga, R., & Das, A. (Eds.), (2012). *Twenty Years of India's Liberalization: Experiences and Lessons*. United Nations Publications: Table: 5.

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So, if you compare in terms of organize and unorganized sector. So, organize sector what happens that in organize sector you have a whole lot of organizations since beginning we have gone for the public sector development. So, under organized sector the labor will have the regular job and then they will have regular salaries or some kind of regulations process is considered under organize. So, that is why it is called organize sector.

Unorganized sector will have formal, informal work and may not be having the regular work and they may be hired and fired anytime. So, this is called unorganized sector. So, if we look at the manufacturing sector growth you will find that 1950s we had set the path for the higher growth. So, we had the manufacturing sector growth of 5.6%. In 1960s it came down to 5.4% because at that time we had our own domestic troubles plus we had to go for certain drought and then we had to also face the political uncertainty.

In 1970s it was more severe because we had at that time our own economy not doing good because of the 1973 oil price shocks plus we had our political conditions not very favorable. So, because of that we had to feel the bottlenecks at every level in terms of ability of food grains, availability of raw materials, availability of infrastructure investment, some orientation was missing at this point of time.

In 1980 onwards, we can see that we are able to achieve or maintain the growth rate of more than 5%. So, the 1970s era is only era where we see that there is a decline in the manufacturing sector growth, but after that we see there is a whole lot of effort to make sure that and post 2000 we have better growth so 7.4% we have between 2000 to 2007. I have taken it from Banga and Das and he has very nice table on this to make sure that we have a clear-cut understanding.

Since, we had progress more on the organized sector front and we had organized our economy in more like a formal setup, so that is why we have a more growth recorded in organized sector compared to the unorganized. Though, you will find that in 1970s organized and unorganized both have the similar number 4.1 and 4.3 and this could be because of the similar situation faced by the organize and unorganized.

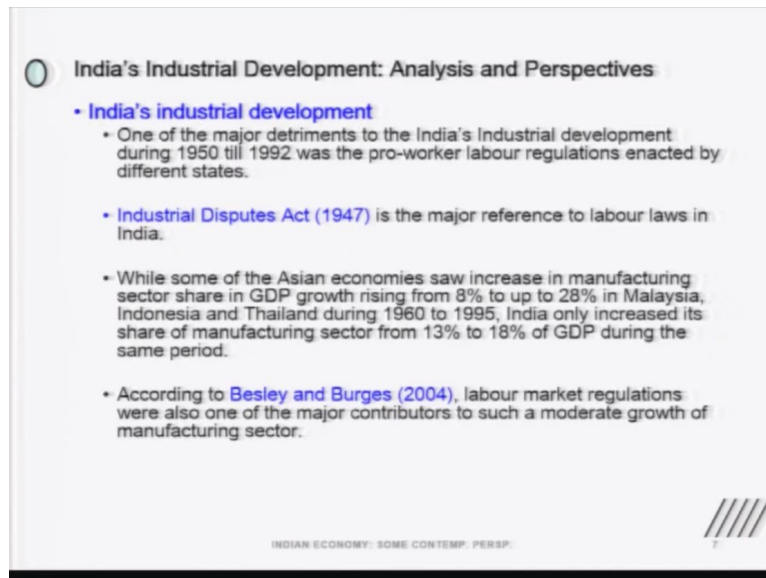
And during 1970s also we had to go for certain changes and that were required at that point of time. Unorganized got a shock and after that we can see that unorganized got a more shock during 1980s when we had liberalized our process and we had restricted, but at that time because of these changes we see lot of growth in organized sector and that could be because of the readjustment that we had.

And after that it had continue and we also see the rise in unorganized post 2000 because post 2000 gave rise to the private sector in a much more manner in a more comprehensive manner and that is why it has continued even after 2000 7.8 is an organize and 6.6 is an unorganized.

If you want to examine the manufacturing sector, then we can examine from this perspective. One is productivity then we have employment then we have optimal utilization resources.

These are the very common factors that we always have in mind when we think about manufacturing growth or industrial growth.

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India's Industrial Development: Analysis and Perspectives

- **India's industrial development**
 - One of the major detriments to the India's Industrial development during 1950 till 1992 was the pro-worker labour regulations enacted by different states.
 - **Industrial Disputes Act (1947)** is the major reference to labour laws in India.
 - While some of the Asian economies saw increase in manufacturing sector share in GDP growth rising from 8% to up to 28% in Malaysia, Indonesia and Thailand during 1960 to 1995, India only increased its share of manufacturing sector from 13% to 18% of GDP during the same period.
 - According to **Besley and Burges (2004)**, labour market regulations were also one of the major contributors to such a moderate growth of manufacturing sector.

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Now, I will be focusing now on the labor. So, we have now considered the organized and unorganized. Let us spend some time at least 5 or 6 minutes on understanding the India's industrial development. So, India's industrial development from the perspective of labor. So, it has been mentioned that in the beginning when we started our industrialization process we were more having a very rigid kind of labor market.

And because of that it was very difficult for not only the private entrepreneurs, but also for the public sector to function and the strikes and labor unionisms where the norms of the market at that point of time. So, in somewhere some economists have reported that the labor laws at that time was one of the major impediments for the high industrial growth in India. So, industrial dispute act 1947 is considered as one of the major documents.

So, at that point of time we had decided about that if there is any dispute between labor and employer then there will be certain rules to decide and how we will be deciding about those rules. So, those rules will be mostly based on how this particular labor whether the labor will have more power than the employer and employer will have righter than the labor. So, those dimensions were added under the industrial dispute act 1947.

And this act still is considered one of the important documents to refer and most of the labor laws in India hovers around this particular act and it is more like a balance because at that time we had gone for more like a welfare state. So, we find lot of rules and regulations more in favor of welfare of the labor and in somewhere you will find that the employer feel tightens about their rules and regulation.

So, industrial dispute act is the first act that deals with the relation between employer and employees. A Besley and Burges 2004 which I referred they have mentioned that while some Asian economies saw increase in manufacturing share from 8% up to 28% and it was reported in case of Malaysia, Indonesia and then Indonesia and then we had Thailand during 1960s to 1995.

And during this period, we were able to increase the manufacturing share only from 13% to 18% of GDP. Now, which means that in this particular period there is a lot of scope to analyze this particular development in the context of data and whatever we have the information available. So, Besley and Burges 2004 find that labor market regulations were also responsible for one of the major contributors to such a moderate growth of manufacturing sector.

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- India's Industrial Development
 - According to [Besley and Burges \(2014\)](#), the states which had enacted pro-worker labour regulations experienced more distortions in output, investment, employment and productivity.
 - States wise regulatory changes in India: 1958-1992

States	Overall Code	States	Overall Code
Andhra Pradesh (1968 & 1982)	Pro-employer	West Bengal (1974, 1980, 1986 and 1989)	Pro-worker
Karnataka (1988)	Pro-employer	Rajasthan (1984)	Pro-worker
Kerala (1979)	Pro-employer	Orissa (1983)	Pro-worker
Madhya Pradesh (1982)	Pro-employer	Maharashtra (1981 and 1983)	Pro-worker
Rajasthan (1980)	Pro-employer	Madhya Pradesh (1983)	Pro-worker
Tamil Nadu (1982)	Pro-employer	Gujarat (1973)	Pro-worker

Source: Besley, T., & Burgess, R. (2004). Can labor regulation hinder economic performance? Evidence from India. *The Quarterly Journal of Economics*, 119(1), 91-134.

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So, if you look from the perspective. So, it was found that what he reports in the paper which appeared in the Quarterly Journal of Economics. This is one of the (21:15) area of economics and published by Harvard University. Now this particular Besley and Burges they say that the

states which has pro-worker labor laws there they found that this particular law distorted the output investment employment.

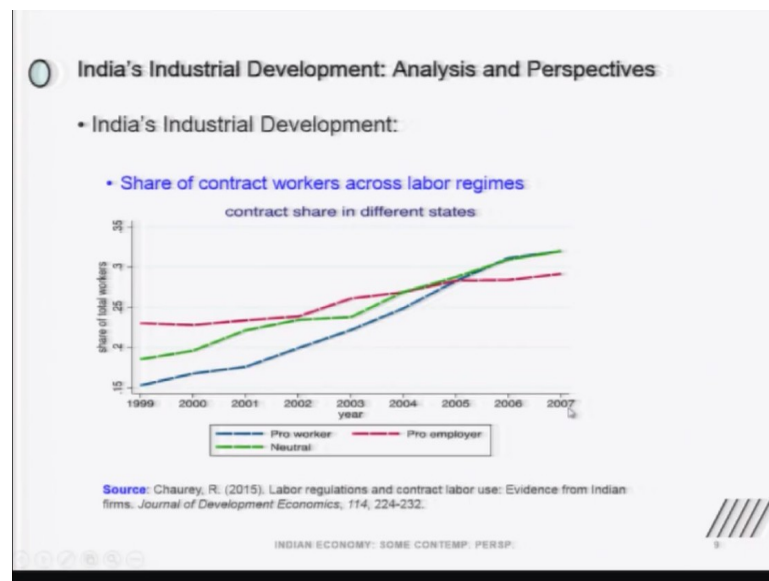
And even welfare in the urban areas because though it was meant that the labor will have the welfare, but ultimately it had back fired in many cases. So, state wise if you see the regulatory changes in India you will find that Andhra Pradesh in 1968 and 1982 they were more of having the policy of pro-employer. In case of Karnataka also it was pro-employer, Kerala also it had in 1979 it had gone for pro-employer.

Andhra Pradesh later in 1987 they had redrafted the labor laws and then they had gone from pro-employer to pro-worker. Rajasthan in 1960 it had also implemented pro-employer policy, Tamil Nadu it had 1982 it had also implemented the pro-employer policies labor laws. In case of Bengal in 1974-1980 it was pro-worker again, Rajasthan, Orissa, Maharashtra, Madhya Pradesh, Gujarat all these states had the pro-worker policies.

And that is why it was found that these states were lagging behind compared to the states which were pro-employer, but if you compare the 60s era then you may not find that much difference because at that time most of these states were also railing under the backwardness pressure that they had to, but post 1990s there has been a lot of improvement and post 2000 we can see the stock difference.

But as per this study it was found it appeared in 2014 they reported that the states which had the law with regard to the pro-worker they had distortions in output employment generation and everything.

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I also refer this aspect from one more study by Chaurey R it was labor regulations and contract labor force and it was found that the contract wise labor which means the contract worker share has increased over the years even in all the states which are either pro-worker, pro-employer or neutral. So, we can see that the contract shares in all the states which is increasing which means that there is a less regulation of work.

And there is a likelihood that in a particular state a greater number of people will be opted for the contractual job compared to a regular job. So, this particular finding also gives lot of idea about how we have progress on the pattern, how it was required to support the policy that we were pursuing at that point of time. So, from 1999 we can see that it is increasing till 2007.

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India's Industrial Development: Analysis and Perspectives

- **India's industrial development**
 - **Productivity growth: 1980s vs 1990s**
 - Some studies have noted that the total factor productivity growth decelerated during 1990s compared to 1980s.
 - According to Virmani and Hashim (2011), the total factor productivity growth decreased from 0.61% in 1980s to 0.25% in 1990s but increased to 1.41% in 2000s. This phenomenon is often linked to the "*J-curve of Productivity Growth*".
 - Few studies have also reported structural break in 1981 that resulted in augmenting the manufacturing sector growth due to the adoption of industrial delicensing.

Source: Virmani, A., & Hashim, D. A. (2011). J-curve of productivity and growth: Indian manufacturing post-liberalization. *IMF Working Papers*, 1-34.

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And then we now will be focusing on the productivity growth 1980s versus 1990. So, there is a very good IMF Staff Paper by Virmani and Hashim 2011 and what they report that when we had during 1980s era the productivity was 0.61% in the manufacturing sector it decreased during 1990s to 0.25, but again it picked up during 2000 at increased by 1.41%. So, the phenomena that we study in case of international trade an economics is that when a county reevaluates its domestic currency.

Then in the beginning because of not having that much impact on the price of import and that is why the country does not feel immediately the increase in export and that is why in the beginning it forms it declines and then become stagnant and then it starts increasing. So, the state deficit will not be eradicated immediately by the devaluation of domestic currency, but it takes time.

So, there is some lag period and that is what we in international economics we call that J-curve effect. In the similar way, they also reported the similar thing with the case of productivity. So, they say that it is the total factor poverty so India had to take measures during 1990s and at that time we were going for liberalization process and this liberalization process had also created a scarcity of certain skills.

And also, in terms of raw material, certain establishments and our manpower was also not very supportive of that and that is why if there was a laggard, but the measures that were undertaken during 1990s it started becoming fruitful. In 2000 and that is why we have the

product to increase a tremendous increase in productivity by 1.41%. So, this J-curve productivity growth is often asking in your exams.

And even when you appear for any kind of competitive examinations you may be asked to define this what is J-curve productivity growth that we experienced and this became one of the hottest debated topic that whether it was smooth or there was any laggard period. Few studies have also reported structure break in 1981 because at that time we had gone for delicensing measures.

We had delicensed a large number of industries that were under licensing category and that also gave rise. So, industrial policy of 1980s is considered as one of the major contributors because we had gone for a separate classification of core sectors and the certain activities were part of that. So, if you want to go through this so you can go through from the IMF working paper Virmani and Hashim D. A. This is J-curve of productivity and growth India's manufacturing post liberalization IMF working paper.

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- India's industrial development
 - Productivity growth: 1990s to 2000s

Year	Fixed capital per unit (Rs. in Lakhs)	Persons per unit	GVA per unit (Rs. in Lakhs)	GVA/fixed capital	Labour Productivity (GVA/persons engaged)
1990-91	121.30	75.15	55.89	0.46	0.74
1995-96	258.95	75.96	121.14	0.47	1.59
2000-01	304.42	60.85	135.87	0.45	2.23
2005-06	433.03	65.01	260.20	0.60	4.00
2009-10	850.55	74.23	432.52	0.51	5.83

Source: Jain, H. (2015). Manufacturing growth & employment pattern in India since 1990s. *The Indian Journal of Industrial Relations*, 412-424.

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Then we also discussed about the productivity growth which continued from 1990s to 2000 and we compare that during this particular period we are just thinking about how we can compare in terms of productive growth of 1990s and 2000. So, this continued so maybe we will discuss this in the next session, but so far what we have discussed is quite interesting that we evaluated the industrial process in the country.

And then we also looked at how labor laws were quite detrimental in terms of not only decreasing the welfare or reducing the welfare of the workers, but it has also impacted the state's growth. So, the diversity that we see in terms of growth patterns across the states one of the reasons is this. So, at that time if policy maker would have gone for some kind of reunification or some kind of reorientation of those labor laws then that would have helped.

But since we were in the process of adopting ongoing for aggressive industrialization. So, at that time (28:47) was the common norm that we had to experience and also that we had gone for adoption of certain macroeconomic policies that were supporting the rigid labor laws. So, in the next session we will start from here and we will be focusing on the productivity growth during 1990s and 2000. Thank you so much.